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Message Text

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ACTION ARA-10

INFO OCT-01 SS-14 ISO-00 SSO-00 NSCE-00 SP-02 L-01
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C O N F I D E N T I A L LIMA 11039

LIMDIS

E.O. 11652: GDS
TAGS: EFIN, PE
SUBJECT: GOP REQUEST FOR FINANCIAL SUPPORT

REF: STATE 299476

1. THE DCM AND I BREAKFASTED WITH ALCANTARA DECEMBER 21. HE REVIEWED FOR US WHAT HE HAD TOLD BERGSTEN, EMPHASIZING PERU'S CRITICAL NEED FOR A DEMONSTRATION OF USG CONFIDENCE AT THIS JUNCTURE. HE CONFIRMED THE STATEMENT MADE IN THE LAST SENTENCE OF THE REFTEL'S FIRST PARAGRAPH, ASSERTING THAT HE HAD THOUGHT A $25 MILLION ADVANCE FROM THE ESF WOULD PRESENT TREASURY WITH NO GREAT PROBLEMS BUT RECEIVED WHAT HE TOOK TO BE A FLAT "NO".

2. ACCORDING TO ALCANTARA, THE NYT ARTILCE OF LAST SATURDAY ALONG WITHOTHER RECENT NEGATIVE NOTES IN THE U.S. PRESS HAS DONE GREAT DAMAGE. HE SAID THE GOP'S EFFORTS TO OBTAIN EXPORT PREFINANCING HAVE STALLED AS A RESULT. HE REITERATED SEVERAL TIMES THAT THE GOP WILL NOT DEFAULT AND WILL MEET THE IMF TARGETS AT ANY COST. BUT PERU NEEDS HELP AND "NOBODY WANTS TO TAKE THE FIRST STEP". ALCANTARA THOUGHT THAT THE GREAT EFFORT THIS
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COUNTRY IS MAKING DESERVED OUR ACTIVE SUPPORT. (IT MAY BE NOTED THAT THE GOP HAS JUST OFFICALLY DESIGNATED 1978 AS "THE YEAR OF AUSTERITY".)

3. I EXPRESSED MY UNDERSTANDING THAT THE DOOR WAS NOT COMPLETELY CLOSED TO SOME ESF SUPPORT, BUT NOTED, AS I HAD TO MINISTER SAENZ AT THE OUTSET, THAT WE COULD NOT

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HONESTLY BE OPTIMISTIC ABOUT THE PROSPECTS. I ASKED
ABOUT THE FIRST IMF DRAWING. ALCANTARA SAID IT WOULD
ALMOST SURELY OCCUR THIS WEEK. ONE DETAIL REMAINS TO
BE RESOLVED WITH REGARD TO WHAT THE IMF REGARDS AS A
POSSIBLE RESTRICTION ON IMPORT PERMITS.

4. ALCANTARA INSISTED THERE WOULD BE NO CAUSE FOR
CONCERN ON OUR PART IF AN ESP LOAN WERE TO BE FORTHCOMING.
IT COULD BE STERILIZED IN A NEW YORK ACCOUNT IN ACCOR-
DANCE WITH A SPECIFIC AND CONDIDENTIAL AGREEMENT BETWEEN
THE TWO GOVERNMENTS. I SAID THAT KIND OF AN ARRANGEMENT
WOULD NOT BE WORKABLE IN MY JUDGMENT AND THAT ANY SUCH
AGREEMENT WOULD HAVE TO BE ENTIRELY OPEN TO BE EFFECTIVE.
ALCANTARA CLOSED THE CONVERSATION BY APPEALING IN THE
STRONGEST TERMS FOR TANGIBLE USG SUPPORT NOW IN THE FORM
OF A $25 MILLION ESF LOAN.

5. ALCANTARA HAD NOTHING NEW ON THE PAYMENT DUE THE SOVIETS
JANUARY 12.

6. COMMENT: THE GOP POSSIBLY CAN MAKE IT THOUGHT THE
FIRST QUARTER WITHOUT MAJOR NEW EXTERNAL FINANCING BUT
THE POLITICAL AND ECONOMIC SOTS ARE LIEKELY TO BE VERY
HIGH INDED. THE CURRENT SCENARIO, AS I UNDERSTAND IT,
IS ALSO BASED ON THE ABILITY OF THE GOP TO OBTAIN THE
EXPORT PREFINANCING NOTED IN THE REFTEL, TO ROLLOVER
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SOVIET CREDITS COMING DUE IN JANUARY, AND TO MAINTAIN
A MODICUM OF GENERAL CONFIDENCE IN THE FINANCIAL AND
BUSINESS SECTORS. I CAN ONLY REGISTER MY VIEW THAT THE
LARGELY SYMBOLIC GESTURE OF CONDIEENCE THEY SEEK FROM
US TO BEING THIS ALL ABOUT WOULD ADVANCE U.S. INTEREST
IN THIS COUNTRY AS NOTHING ELSE COULD. THE MOMENT TO
DEMONSTRATE OUR SUPPORT FOR DEMOCRATIZATION AND RATIONAL
ECONOMIC POLICY IN PERU IS NOW. IT COULD VERY WELL SOON
BE TOO LATE.

7. I RECOMMEND THAT STATE AND TREASURY, AT AN APPROPRI-
ATELY HIGH LEVEL, CONSIDER THE POSSIBILITY OF $25 MILLION
IN BRIDGE FINANCING FROM THE ESF TIED TO THE SECOND AND
THIRD IMF TRANSFERS AND CONDITIONED IN WHATEVER FASHION
WOULD MEET OUR NEEDS WITH RESPECT TO THE SOVIET PAYMENT
IN JANUARY.
SHLAUDEMAN

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